

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

11 February 1960

POPULATION OF THE USSR

15 JANUARY 1959

(MILLION PERSONS)

AGE GROUP	USSR CENSUS DATA	PREVIOUS US ESTIMATES	DISCREPANCY IN US ESTIMATE (PERCENT)
0-9	46.4	46.1	0.6
10-15	17.1	17.9	4.7
16-19	14.7	16.0	8.8
20-59	110.9	111.7	0.7
60 & OVER	19.7	17.1	13.2
TOTAL	208.8	208.8	0

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000 have had some college training. These figures indicate considerable progress in the USSR--particularly since 1949, when seven-year schooling was made compulsory--but at these two levels of education, the USSR is still far behind the United States.

low birth rates of World War II. In 1961, for example, the increase is less than 200,000, and not all of these will be available for work. In order to meet the Seven-Year Plan goals, about 1,700,000 workers must be added to the state industrial and agricultural labor force during each of these years. Most of the men to be released from the services would be in their early twenties and would presumably be more productive than women, older people, and children.

The total population of the USSR in January 1959 is reported as 208,826,650--some 94,000,000 men and 114,800,000 women. Of this total, 100,000,000, or nearly 48 percent of the population, live in urban areas, as compared with about 32 percent before World War II.

Reporting on Soviet education, the USSR claimed that 58,700,000 persons had completed at least seven-year elementary education. Of these, 13,400,-

In March 1959, about 98,100,000 Americans had completed at least an eight-year elementary education; this is about 80 percent of the adult population or twice the proportion in the USSR. The number of persons with some college training was about 18,500,000 in the United States--or 15 percent of the adult population, as compared with 9 percent in the USSR.

The census report also includes data on the nationality composition of the population. The Russians, as in 1939, still form more than one half of the population, and the Slavs (Russians, Ukrainians, and Belorussians) about three fourths. The report also reflects the large movement of Russians into some of the minority republics, particularly into Kazakhstan, as a result of the New Lands program. Russians now make up 43 percent of the population there, the Kazakhs only 30 percent.

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USSR PROGRAM OF BENEFITS FOR RELEASED SERVICEMEN

Soviet officers and career enlisted men discharged under the military manpower cuts announced by Khrushchev at the mid-January Supreme Soviet meeting

are to receive a number of special benefits in the form of housing, bonuses, and education. The Soviet "GI bill" of 27 January which calls for these benefits

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also requires local officials to provide suitable jobs within one month for all categories of released personnel. The promulgation of this program indicates that the USSR intends to proceed with its announced demobilization.

The major responsibility for locating work for the discharges will fall to special commissions originally set up in connection with earlier demobilizations. Veterans who sign labor contracts will receive travel expenses and bonuses of from 300 to 600 rubles; the largest amounts will be paid to those who agree to go to the north, the Urals, the Far East, and Kazakhstan.

Housing is to be provided for the officers and career enlisted men within three months after arrival at their places of residence. There is a provision, however, that they may

be housed with their parents or families "regardless of the sanitary norms violated"--thus indicating that the servicemen should not expect to receive separate living accommodations. Building materials and housing loans of up to 7,000 rubles--repayable over seven years--are to be granted for home construction, with preference given to rural building, particularly in the virgin lands.

Officers are to be given priority for admission to universities and technical schools and are to receive scholarships of at least 400 rubles per month. They are to be admitted without entrance examinations and in addition to the regular planned enrollment. Local authorities are obliged to provide schooling for the children of both officers and career enlisted personnel who settle in their areas. (Prepared by ORR)

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SATELLITES INTEGRATE POWER FACILITIES TO PREVENT SHORTAGES

The European satellites continue to experience winter power shortages which sometimes shut down factories, and they face more serious shortages of power over the long run which could hamper economic growth. To prevent this, an integrated Eastern European power network is being built under the aegis of the bloc's Council for Mutual Economic Assistance (CEMA).

A 220-kilovolt line between Skawina, Poland, and Liskovc, Czechoslovakia, was scheduled to be in use by the end of 1959, and the power plant at Berzdorf, East Germany, will be linked by a 220-kilovolt line to Turaszow, Poland, and to an unspecified area in Czechoslovakia in 1960.

Another connection is to be made in 1960 between Vyskov, Czechoslovakia, and Zwonitz, East Germany.

At least six large power plants with an ultimate combined capacity of 1,000 megawatts or more are under construction or planned. Four of them are in or near the extensive brown-coal fields of southeastern East Germany; two are in the brown-coal fields of southwestern Poland. In addition, Rumanian natural gas is to supply the fuel for two 300-megawatt steam power plants to be delivered by Czechoslovakia in return for electric power from Rumania.

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Although the Communist bloc press has suggested that the satellites will import large amounts of electric power from the USSR and Western Europe, this appears to be far in the future. The transmission lines and transformer stations necessary for a large-scale movement of power between the satellites and the USSR or Western Europe do not exist.

The development of an integrated network will help to avert a potential power shortage but will not solve all power problems. A recent East German press release admits that unless new resources of coal, gas, oil, and water are developed, major shortages of electric power will occur by 1970.

According to a preliminary estimate, however, as early as 1965 these countries may become significant net importers of energy if planned rates of increase in industrial production



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are to be achieved. It is possible that part of the proposed large oil imports from the USSR are intended for use in generating electric power, but even this will not solve the problem entirely. (Prepared by ORR)

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EAST GERMANS CONTINUE DRIVE FOR RECOGNITION

Soviet authorities have recently taken several steps to point up East German sovereignty. These steps, together with moves by the East Germans, are part of a cumulative series designed to enhance the regime's appearance of de facto sovereignty.

Soviet authorities are attempting to maneuver officials of the three Western powers into accepting for the first time documentation referring to the "German Democratic Republic" (GDR). Moscow is seeking to force Allied Military Liaison Mission ((MLM)) personnel

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accredited to the commander in chief of the Group of Soviet Forces in Germany to use new passes which have been registered with the GDR's Ministry of Internal Affairs and are said to give to MLM members "the right to travel within the territory of the DGR, except for restricted areas."

Acceptance of the passes would be used by the USSR and East Germany as implicit recognition of the Ulbricht regime. As a result of American refusal to use the documentation, operations of the mission are practically paralyzed.

Moscow has also entered an implicit claim that East Germany's sovereignty extends to the Berlin air corridors. Soviet officials in the Berlin Air Safety Center on 3 February issued a flight safety guarantee, intended to cover a special Scandinavian Airlines System (SAS) flight to West Berlin's Tempelhof airport, which contained the phrase "...taking into account that permission has been granted by governmental authorities of the GDR for a flight to Berlin-Tempelhof...." The three Western powers immediately refused to accept the guarantee, and the flight was canceled.

In the most recent effort to enhance its status, East Germany sent Foreign Trade Minister Heinrich Rau, a close associate of Ulbricht, to India and Burma. This is the first time Burma has permitted high-level East German officials to visit, and, although Premier Ne Win did not receive Rau, East German media are portraying the visit as a major coup.

In India, Rau met Nehru, in accordance with the latter's custom of interviewing all high-level visitors. The East Germans appear to believe that

they have some chance of making gains toward de facto recognition following Nehru's public statement of 3 December to the effect that "up to now I can only establish that no one wishes German unity." However, Nehru probably will make no overt move prior to the summit conference.

The East Germans have recently had some success in breaking down the reluctance of nonbloc commercial lines to land planes at Schoenefeld airport outside East Berlin. In its first air agreement with a nonbloc country, East Germany has agreed with Yugoslavia to inaugurate regular commercial services next summer.

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East German participation in the Winter Olympics at Squaw Valley is being used to enhance the regime's prestige. A major effort has been made to present the East Germans as a separate team, although they are committed to participation in an all-German team. This included the charter of a special SAS plane to carry players and officials from Schoenefeld airfield to Reno.

The regime has also made gains in breaking down Western opposition to travel of high East German officials to West European countries. Politburo candidate member Alfred Kurella and Neues Deutschland editor Hermann Axen recently received Italian visas for travel to Rome. A number of medium-rank East German officials have visited Britain, and two now are in London to promote East Germany's bitter attacks on the West German Government as "fascist" and "militarist."

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CONTINUED EXECUTIONS IN HUNGARY

During the past year, and particularly since October, the Kadar regime in Hungary has been holding secret trials or retrials for alleged participants in the 1956 revolt, including in some cases youths of 18 or less, some of whom have been detained from one to three years. Although it has been officially denied, some youths have been hanged; unconfirmed reports state that there have been from 150 to 200 executions, and evidence suggests that the toll may be even higher.

The US Legation agrees with other diplomatic missions in Budapest, including the Yugoslavian, that extreme repressive measures by the regime are continuing and probably have increased in recent months. Throughout early 1959 there were sporadic and generally unconfirmed reports of trials and executions. At least two of these, the so-called Ujpest trial in March and another involving 24 students in April, were admitted by various regime spokesmen, although denied by such top leaders as party First Secretary Janos Kadar. In December, however, the US Legation learned [redacted]

[redacted] that there had been a "sharp increase" in the number of executions at Budapest's several prisons.

[redacted] persons arrested and then released immediately after the 1956 revolt were being rearrested and, in some cases, hanged. [redacted] the mother of one young man had been notified of a number assigned to her son's grave in Rakoskeresztur cemetery, which adjoins Budapest's central prison. The

mother discovered that her son had been buried in a long, common grave in a section usually reserved for paupers. When she returned to the cemetery two days later, she found two more common graves. [redacted]

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The majority of the victims appear to be youths--some of whom were legal minors at the time of their arrests. In these cases, it appears that the regime has detained the youths until their eighteenth birthday, at which time they have been sentenced by a special tribunal of the Supreme Court in Budapest.

The executions parallel similar repressions in 1957 and 1958, although there is little justification for such measures in terms of internal security.

The absence of publicity suggests that the regime does not wish to undercut its professions of normalcy within Hungary. [redacted]

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NORTH VIETNAM'S RELATIONS WITH MOSCOW AND PEIPING

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The close association between the North Vietnamese and Chinese Communist delegations at the recent Warsaw Pact conference in Moscow, and the fact that neither attended the earlier agricultural conference, suggest North Vietnam's acceptance of Communist China's guidance on these occasions.

the Russians are much in evidence in Hanoi and make special efforts to be friendly, even to those Western representatives who are largely ignored by the North Vietnamese authorities. The Soviet Embassy invited the entire diplomatic corps, and many Vietnamese, to a showing of a Soviet film on Khrushchev's visit to the United States, and later arranged for showings in theaters in Hanoi and principal urban centers of North Vietnam.

A similar film was withdrawn by the Chinese authorities in Shanghai after two days, presumably because of the impression of US wealth and power conveyed by the background scenes.

Hanoi's treatment of Sino-Indian relations. At first, the Hanoi press published only Chinese accounts of the situation. Toward the end of last October, however, Premier and Foreign Minister Pham Van Dong assured the Indian consul that Hanoi papers would give equal prominence to Indian views, and this promise has been generally carried out.

situation might be temporary and that basic factors of race and geography require continued accommodation with China. The chief of the French mission in Hanoi comments that the historical friction between Chinese and Vietnamese is a



PHAM VAN DONG

factor of diminishing importance.

North Vietnam's apparent vacillation between the policies of Moscow and Peiping most likely results from attention to its own national interests, rather than to coercion from either bloc partner. In the case of the Sino-Indian dispute, for example, Hanoi would be expected to placate India as part of its efforts to maintain and enlarge its international contacts. Internally, however, the basic social and economic situation confronting the regime is similar in many respects to that of China, so that Chinese Communist guidance is more readily acceptable in this sphere.

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POLITICAL PROSPECTS IN BURMA

U Nu's overwhelming victory in the general election of 6 February will return him to the premiership with greater personal power than before. The election marks the end of the Anti-Fascist People's Freedom League (AFPFL), which ruled Burma from independence in 1948 until General Ne Win took over in 1958,



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but returns Burma to the typical domination of the political scene by a single party. Nu's "Clean" AFPFL party will become the "Union" party in April. The only effective alternative to Nu will be the army.

The election reduced the "Stable" AFPFL party to a maximum of 30 seats in parliament and excluded both its leaders, Ba Swe and Kyaw Nyein--formerly Nu's closest associates; Nu nevertheless hopes the party will become the "loyal opposition." The Communist-dominated National United Front--the major opposition group in the past two parliaments and, in 1958, the makeweight in Nu's parliamentary majority--has been reduced to an inconsequential handful.

Nu's postelection statements indicate that his personal outlook did not change during his 15 months out of office. He is extreme in his praise of General Ne Win, the outgoing premier, and has announced that he intends to carry on the programs his predecessor inaugurated. The only significant change appears to be in the field of foreign economic assistance; although Nu intends to continue the American grant projects for Rangoon University and the Rangoon-Mandalay highway, he prefers loans to gifts. He argues that grants undermine, rather than build, good relations. As in the past, however, he will apparently be prepared to accept loans, regardless of source, for projects he approves.

Nu's unchallengeable preeminence in parliament should make for stable and effective government. The army regime will turn the country over to him in the best economic condition since independence, with insurgency and crimes of violence at an all-time low. However, Nu, an idealist and a shrewd politician, is notoriously impatient with administrative details and in the past has been incapable of policing the corruption or inefficiency of his colleagues. Nevertheless, his recent forced retirement and his awareness of the prospect of continued army surveillance may encourage him to reform.

General Ne Win, whose national prestige is second only to Nu, will remain as military commander in chief and continue in a position to check on, or even take over, the government.

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ROUND-TABLE CONFERENCE ON BELGIAN CONGO

Congo nationalists and Belgian authorities have reached tentative agreement on the structure of the independent Congo state to be established on 30 June. Agreement has been reached in committee on a bicameral national parliament with unicameral legislatures for each of the Congo's six provinces. Elections to these bodies have been scheduled for mid-May and mid-June.

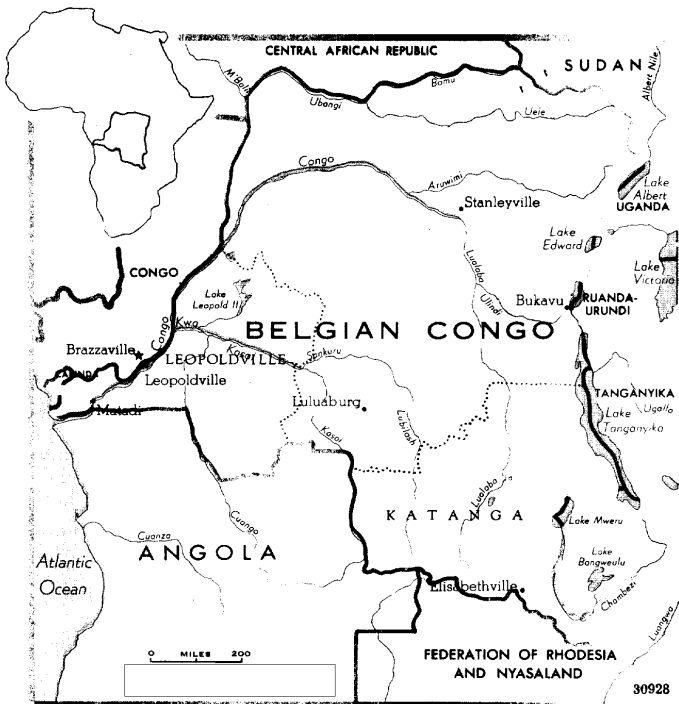
African suspicions that the Belgians hoped to reserve to themselves primary responsibility for defense and foreign affairs have been largely dissipated by Brussels' formal agreement to independence "without any qualifications." The Belgians, however, are still concerned that tribal outbreaks may occur once the restraining Belgian authority is withdrawn. Congo Minister de Schrijver has

expressed the hope that some arrangement can be made whereby the internal security forces will remain under Belgian control following independence.

Despite their success in gaining the support of a majority of the Congolese delegates for their June independence timetable, Belgian authorities continue to be confronted with separatist threats from two sources. In mineral-rich Katanga Province, the prospect of an African-dominated Congo has stimulated secessionist sentiment within Conakat--a European-dominated political party associated with Belgian mining interests. It is possible, however, that such sentiment can be neutralized by providing for a large degree of local autonomy.

African separatist sentiment is concentrated in the

Abako, the dominant political party in Leopoldville Province, whose leaders have periodically demanded a separate state in the lower Congo region. The preoccupation of Abako leaders with factional infighting has reduced their voice at the round-table talks, and it remains to be seen whether a majority of the party will accept decisions reached at Brussels. Belgian authorities have rejected Abako demands for the establishment of a provisional Congo government immediately following the talks.



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have repeatedly approached the Congolese delegates at Brussels with offers of economic and presumably political assistance. One bloc representative reportedly offered to buy a large amount of palm oil from Abako

cooperatives, and individual Congolese delegates have made side trips to the USSR, East Germany, and Czechoslovakia during the talks in Brussels.

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MOROCCO

Moroccan relations with the Middle East may become somewhat closer as a result of King Mohamed V's trip to the UAR, Saudi Arabia, Jordan, Kuwait, Iraq, and Lebanon. The King probably was impressed by the Arab leaders, and may have been flattered by the enthusiastic reception he received everywhere. He apparently felt most at home in Lebanon, both because French cultural influence remains strong there and because of his younger son's engagement to a Lebanese.

The most notable incident of the month's tour was Iraqi Premier Qasim's announcement, apparently taking the King by surprise, that Iraq was giving Morocco three British-built fighter-bombers. These piston aircraft, when delivered, will bring to 26 the airplanes of the Royal Moroccan Army air arm. Qasim probably sought to outdo UAR President Nasir, who gave Morocco two airplanes last year during the crown prince's visit to Cairo.

The King's visit to the UAR, which coincided with the Aswan High Dam ceremonies, was in response to repeated invitations from Nasir. At the same time, Mohamed insisted on visiting other Arab countries,

particularly Iraq, in order to avoid creating the impression that Morocco had chosen sides in intra-Arab squabbles.

If, as reported, he sought to patch Nasir's quarrels with Qasim and Tunisian President Bourguiba, he probably was unsuccessful, because Nasir is not ready to make the concessions required by the others. The King is reported to have received promises of support from several Arab leaders for Morocco's proposal to amend the Arab League charter to permit majority rather than unanimous decisions.

Now that he is back in Morocco, the King may move cautiously to reorganize the Ibrahim government before local elections take place. These are scheduled for May. He may dismiss Prime Minister Ibrahim, who aroused the King's antagonism last fall by failing to forestall the sharp criticism of the palace by his leftist supporters.

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CYPRUS INDEPENDENCE FURTHER POSTPONED

Following a temporary breakdown of negotiations in Nicosia between British and Cypriot leaders, London on 8 February announced indefinite postponement of independence for Cyprus beyond the latest target date of 19 March. This is the second postponement of independence. The first, which extended the date from 19 February, resulted from the failure of the mid-January conference in London.

The major stumbling block continues to be the size of the two military bases to remain under British sovereignty after independence. British officials, notably senior military officers, have refused to consider a further reduction in the area London demands for the bases--about 120 square miles. Other questions, including the difficult problems involving the civil administration within the base areas and future financial aid to Cyprus, have been largely resolved after substantial concessions by Britain.

London said the latest postponement had to be indefinite, rather than for another month, because it now would be impossible to obtain parliamentary ratification of the necessary final agreements before late spring.

Greek Cypriot leader Makarios apparently hopes he can extract further concessions and believes time is on his side. In this he is probably relying on the increasing difficulties facing the British

colonial administration because of the repeated postponement of independence. These problems involve both security and the administration on Cyprus, inasmuch as many civil administrators and members of the police force have made plans to leave the island. British military units remaining on Cyprus have been moved into the area of the bases claimed by London, and any attempt to move them back into other areas could lead to severe repercussions.

Britain's action in breaking off the Nicosia talks and unilaterally postponing independence was sharply criticized by both Makarios and Turkish Cypriot leader Kuchuk. Subsequently, however, informal talks were resumed, and on 11 February Kuchuk expressed renewed optimism that a compromise settlement was possible.

Makarios' popularity within his community has reached a new high, but his followers, for the most part, have thus far reacted almost apathetically to the postponement of independence. The Turkish community, however, has shown more anxiety, and one of its newspapers has expressed apprehension over a possible return of violence.

While the latest postponement will create new bitterness on Cyprus, and possibly occasional acts of violence, it is unlikely to lead to widespread unrest unless the British apply economic pressure for a settlement, such as discharging Cypriot laborers employed at the British bases.

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EFFECTS OF MACMILLAN'S AFRICAN TOUR

Prime Minister Macmillan's statements during his African tour which ended on 5 February, particularly his unexpectedly sharp condemnation of apartheid in South Africa, suggest he is inclining toward greater consideration for African aspirations. Some new trends in British policy are possible in the coming months, particularly regarding the Federation of Rhodesia and Nyasaland, which the Monckton advisory commission is to visit beginning 15 February.

Macmillan's frame of mind was most clearly revealed in his 3 February speech in Cape Town in which he affirmed that he had been most impressed with the strength of African national consciousness. Earlier he had underlined his commitment making African agreement a precondition for transferring the overwhelmingly African-populated Nyasaland and Northern Rhodesia from Colonial Office administration to control by the settler-dominated Federation. Despite this attempt to placate African apprehensions over British policy, Macmillan's continued endorsement of the Federation has displeased the nationalists, who reaffirmed their intention to boycott the Monckton commission because it is not specifically authorized to recommend the Federation's dissolution.

Rightist European settlers, incensed by Britain's refusal

to give up its control of the northern territories, are demanding that Southern Rhodesia secede from the Federation. Southern Rhodesian Prime Minister Whitehead has threatened to reconsider his government's commitment to the Federation principle if Africans in the northern territories receive self-rule. This openly challenges London's stated policy for them. Although Federal Prime Minister Welensky remains committed to the continuation of the Federation, in an open clash between London and Whitehead he might more strongly advocate the white settlers' cause.

Macmillan's criticism of the Union of South Africa's racialism and his firm statement that British policy as a result might have to "make difficulties" for the Union have earned him tremendous political credit in London. His statements--which have been acclaimed by the press--challenge Labor's campaign to make political gain by championing the Africans' cause.

His remarks have been viewed in South Africa as a warning that Britain may be even less inclined to act as an apologist for the Union in international forums. Macmillan's disapprobation may also strengthen sentiment within the ruling Nationalist party for the country's withdrawal from the Commonwealth.

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Delay in reaching agreement on a Western candidate for president of the 15th UN General Assembly has probably enhanced the prospects for the election of Czech Deputy Foreign Minister Jiri Nosek, who announced his candidacy in the fall of 1959. By common consent, the presidency is to go to a European this year, and Frederick

**NOSEK**

Boland of Ireland now has emerged as the favored Western figure. Secretary General Hammarskjold and other UN officials have indicated a preference for an Eastern European this year. Although the election will not take place until 13 September, the Soviet bloc's drive to obtain the office has created an unprecedented amount of politicking at this early date.

Chief Irish UN delegate Boland came out unofficially as a presidential candidate in December 1959, but the possibility that Italy might submit a candidate made the other Western European UN members hesitant to commit themselves to Boland. Boland has a large personal following at the United Nations and has proved himself a capable chairman and

delegate in the relatively few years Ireland has been a member of the United Nations. His country's formal neutrality might also increase his potential appeal among Asian-African bloc members. Although most Western European members were agreed there was no Italian candidate of comparable UN stature, Italy did not formally withdraw until early February.

Nosek's early campaign and popularity make him a formidable opponent. He has been at the UN since its early years, has served as Czech ambassador to India, and has been characterized as "the most Western of the Eastern delegates." He is generally regarded at the UN as a competent and relatively impartial presiding officer. The fact that Eastern Europe has

**BOLAND**

never held the presidency--nor the chairmanship of a major political committee--will also advance Nosek's prospects among those UN members anxious to emphasize the importance of geographical rotation of major UN elective offices and to make some friendly gesture to the USSR. High-ranking officials of the UN Secretariat, moreover, believe that granting a high

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elective office to the Soviet bloc is a "matter of equity."

Some move may develop to support a satellite for the chairmanship of the main (First) Political Committee. Such a move would appeal to Scandinavian

and some Latin American members who might otherwise see opposition to Nosek as "a cold-war maneuver." Six Latin American members are reportedly already committed to Nosek.

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POLITICAL UNCERTAINTY IN THE BENELUX COUNTRIES

The three moderately right-ist Benelux governments, all formed in the last year and a half during the general trend to the right in Western Europe, are gradually becoming weaker. Their more progressive elements are threatening to make common cause with the opposition Socialist parties, which have been regaining their strength and prestige. The Belgian and Dutch coalitions could collapse at any time--a factor making it harder for their leaders to deal with politically delicate problems like defense.

In Belgium, the "marriage of convenience" between the Social Christian (PSC) and Liberal parties has limped from one internal crisis to another since the government was formed in November 1958. Although the Congo problem tends to hold the coalition partners together because of the opposition Socialist party's reluctance to assume responsibility for its solution, they have been far apart on such matters as financial policy, electoral reform, and the redistribution of parliamentary seats. A further difficulty for the coalition has been the move of some Catholic trade union members to join the Socialists in protest against the government's refusal to call a labor-management conference on wage and employment questions.

Similar difficulties over economic policy have affected the Netherlands' Catholic-Protestant-Liberal coalition formed in May 1959. The Labor party opposition, supported by the left-wing sector of the coalition, has particularly opposed Prime Minister de Quay's "free wage" policy of permitting simultaneous price rises and offsetting wage increases, and on several occasions has extracted concessions from him to avert a political crisis. Growing labor unrest and sporadic strikes have further embarrassed the cabinet.

This situation has made it difficult for the cabinets in all three Benelux countries to resist increasing popular pressures to lower the term of military service and reduce defense expenditures. Belgium reduced obligatory service to 12 months in 1959, and the defense minister has been directed to effect further economies in the 1960 defense budget. In Luxembourg the government is under considerable pressure to reduce the service term even below the nine months to which it is at present committed. The Netherlands Government, though a staunch supporter of NATO, is faced with increased public criticism of its defense efforts because of the lack of comparable efforts by its neighbors.

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PART III**PATTERNS AND PERSPECTIVES****URUGUAY'S FIRST YEAR UNDER CONSERVATIVE RULE**

During the past year, Uruguay has suffered economic strains and social unrest marked by strikes, an increase in the cost of living, and a serious trade imbalance. Most of these stresses were present to some degree in November 1958 when the voters terminated over 90 years of Colorado party rule and gave the mandate to the conservative National party (NP). The NP's policies since taking office on 1 March 1959 have brought these stresses into

the open, and the coming year will probably see new strains if the government holds to its plan for drastically revamping the country's highly subsidized and semicontrolled economy.

Underlying the planned changes is the NP's fundamental identification with agrarian interests, which form the core of Uruguay's economy, as opposed to the Colorado party's traditional interest in urban and industrial problems. The

new government plans to seek extensive foreign aid to back an economic stabilization program but, like all other modern Uruguayan governments, is reluctant to permit private foreign investment in any important area of the economy.

National Party Problems

The National party, although it won the elections on a wave of popular discontent with the economic situation, had not developed a coherent program by the time it took office four months later. The members of the new government, headed during its first year by Martin Echegoyen, were generally agreed on the urgent need for economic reform but were hampered by inexperience and divided by factional struggles over patronage. Their difficulties were



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compounded by the problems inherent in Uruguay's cumbersome nine-man executive body--the National Council of Government --in which the opposition has a third of the seats.

The internal party power struggle, which claimed most of



NARDONE

of the government's attention during its first months in office, placed the NP's three "Ruralist" councilors, headed by Benito Nardone, in competition with the three "old-line" members over patronage. A third important faction, the Blanco Democratic Union, has almost half the NP's 51 seats in the 99-man Chamber of Deputies, but it is not represented on the executive council.

By midyear, disastrous floods had caused shortages of food and other essentials; this, combined with a holdover import austerity program, doubled the previous rate of inflation and caused serious unemployment in industries dependent on imported goods. Uruguayans, accustomed to a high standard of living under the Colorado party's welfare state policies, reacted with a wave of strikes and demonstrations.

Economic Reform

While attempting to relieve the immediate pressure on the business community and the wage earner through stopgap subsidies and credit facilities, the government in July decided to press for a complete reorientation of the economy and the elimination of chronic trade deficits by freeing the exchange rate and channeling all trade through the free market. In December, after a bitter two-month debate, congress authorized an exchange reform program on a strict party-line vote.

The program is hedged with supposedly transitional taxes and subsidies, but nevertheless is expected to bring some immediate benefits to producers of raw wool and meat, Uruguay's chief exports. Foreign exchange earnings from wool and meat were cut in half between 1953 and 1958, partly because politically motivated subsidies deflected production into less profitable channels.

The program is also likely to tighten the pinch on the wage earner and the business community and to prolong and intensify the growing wave of wage strikes.

While the NP is generally sympathetic to the aspirations of labor, it is determined to mobilize the nation's resources behind the rejuvenation of agriculture and has made it clear it will fight "excessive" labor demands. Both the army and the navy have been used to break strikes in recent months; half the Montevideo army garrison was detailed to sanitation duty in January, replacing striking municipal employees.

The government is also seeking ways to balance the

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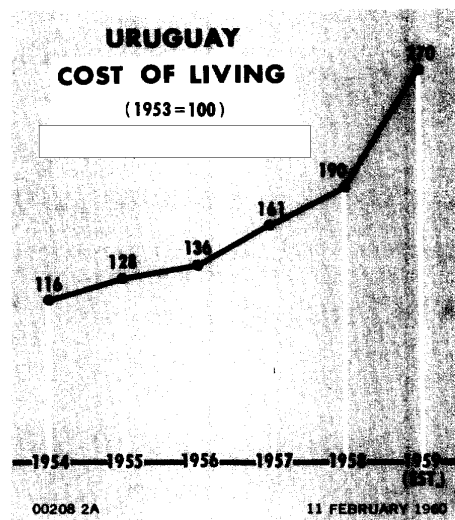
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budget and to control the national debt. The debt has more than doubled since 1954, chiefly as a result of inefficient state-monopoly subsidies and welfare-state activities, while the per capita gross national product has been stagnant or has declined.

Benito Nardone, who will assume the presidency for the year beginning 1 March 1960, is even more deeply committed than President Echegoyen to reversing the policies of the long-entrenched Colorado government and will probably face severe challenges if he presses his program rapidly. Nardone has emphasized repeatedly that he is counting on US financial aid to back his policies.

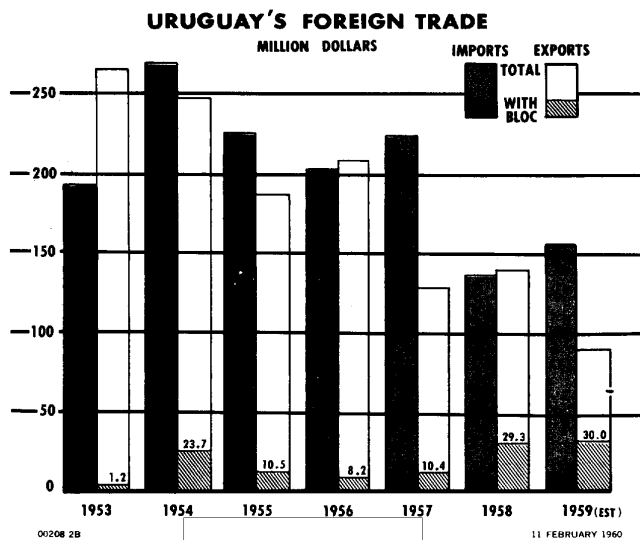
Relations With Soviet Bloc

The Colorado government had turned increasingly to trade with the Soviet bloc to alleviate the country's economic difficulties. NP leaders, while deploring this trend, have felt powerless to reverse it as long as they lack alternative markets.



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Uruguay's trade with the bloc reached substantial proportions in 1959; preliminary estimates indicate it may have accounted for as much as 20 percent of the country's total trade, as contrasted with 13 percent in 1958 and 5 percent or less in earlier years. The bloc bought over 40 percent of Uruguay's 1958-59 wool and supplied more than a fourth of the country's 1959 oil requirements.



The NP government also is uneasy about the activities of the large Soviet Legation staff in Montevideo, especially in view of the Argentine and Mexican actions last year expelling bloc diplomats for promoting labor agitation. The governing council has several times discussed restricting the legation's activities but has been unable to agree on a course of action. The local Communist party, although numerically

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unimportant and previously limited politically by the much greater appeal of the Colorado party's welfare-state ideas, controls the largest national labor confederation and last year mounted a new drive for "labor solidarity" against the government's economic reform program.

Relations With United States

US-Uruguayan relations deteriorated seriously between 1953 and 1958, when the Colorado government accused Washington of "intervening" in the Uruguayan economy. Colorado officials were especially bitter about a countervailing duty on wool tops--imposed in 1953 and removed in 1959--and about US programs for disposing of

surplus wheat. During this period Uruguay several times asked Washington to "offer" loans, and top officials were deeply offended at the suggestion that detailed proposals and studies would be necessary.

The National party, although consistently hostile to the United States during its years as an opposition party, has abandoned this position since attaining office. Like the Colorado party, the new government has been insistent about its need for loans but vague about supplying background information. The government plans to send a mission to Washington in the spring of 1960 for further discussions on the loan question.

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ECONOMIC COOPERATION WITHIN THE SOVIET BLOC

The Soviet bloc's Council for Mutual Economic Assistance (CEMA), after almost a decade of comparative inactivity, has been exerting itself since early 1958 to promote closer economic cooperation among the European satellites. The impetus came largely from Khrushchev's sharp criticism in April 1958 of CEMA's inadequacies, as shown by the trends toward duplication in satellite industrial development. The USSR is pushing the current effort in order to reduce unnecessary drains on the Soviet economy, promote political and economic cohesion in the bloc, and support the bloc's program

of economic penetration of underdeveloped countries.

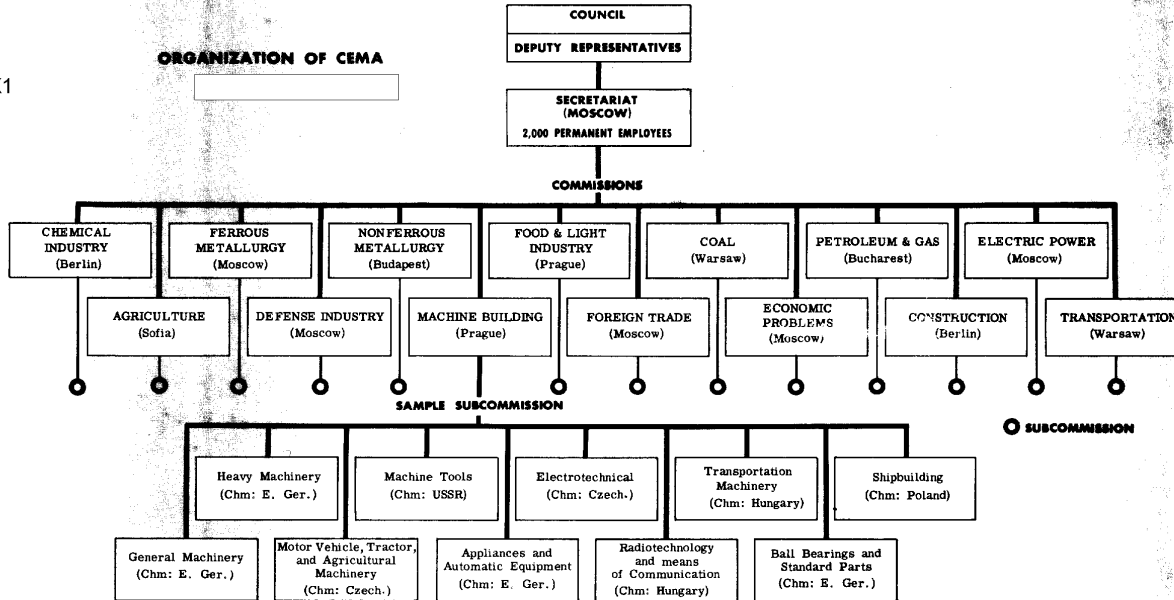
The USSR does not yet appear to be seeking to integrate the entire bloc within the framework of one master economic plan--an ostensible purpose of CEMA when it was created in 1949 as the bloc counterpart to the West's Organization for European Economic Cooperation--nor is there any indication that full integration is likely or feasible within the next few years.

Current efforts to improve the coordination of economic planning have the more limited

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ORGANIZATION OF CEMA

objective of ensuring continued development of the industrial and agricultural base of the European satellites during the period 1961-65. The program is focused on the coordination of the European satellites' economic plans and the establishment of an effective system of industrial specialization within the Soviet bloc.

CEMA will continue to use bilateral and multilateral trade agreements, joint industrial projects, standardization of designs and methods, and technical cooperation. The allocation of specific production functions to the satellites generally is still in the beginning stages, but such specialization may ultimately facilitate real gains in efficiency--particularly with regard to construction and technology in new industrial fields such as petrochemicals.

Moscow is seeking more formal legal status for CEMA as part of the campaign for "peaceful economic competition" with the industrialized West, to step up intrabloc economic

cooperation, and to increase CEMA's prestige at a time when West European economic cooperation organizations are moving ahead rapidly. At the CEMA plenum in Sofia last December, the members approved a "charter and convention on legal capacity, privileges, and immunities of the council." These documents may be designed to spell out the increased authority which Khrushchev indicates the organization needs to implement its ultimate goal--integration as well as growth of the East European economies.

CEMA's 14 specialized working commissions and their subcommittees are meeting with increasing frequency and are instrumental in coordinating the national economic plans for 1961-65. At CEMA plenums, special emphasis is being placed on those commissions dealing with planning, production, and trade in industrial fuels and materials, machinery and equipment, and transportation and communications. The effect of this emphasis, viewed largely as long range, may be quite significant by 1965. The satellites remain reluctant to participate

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fully in bloc specialization, but they are displaying some willingness to be guided by bloc considerations where gains are clearly in the national interest as well.

Intrabloc Trade

CEMA activity has produced some results, particularly in trade. In 1959 intrabloc trade appeared to be rising somewhat faster than trade between Eastern and Western Europe, a trend which may be partly attributable to CEMA's efforts. Moreover, agreements on specialization in the production of machinery and equipment are contributing to the increasing importance of these products in the intrabloc trade of at least the major European satellites.

CEMA activities in intrabloc trade are designed primarily to ensure the allocation of key raw materials, fuels, machinery, and equipment to fulfill production patterns formulated in CEMA's industrial committees and to lessen dependence on the West by meeting import requirements from bloc-wide production.

CEMA also seeks to enhance intrasatellite exchanges in order to preclude unnecessary drains on Soviet resources. The organization seeks to promote greater multilateralism in trade agreements, but bilateral exchanges continue to predominate in intrabloc trade. CEMA's Commission for Foreign Trade set up in 1957 a multilateral clearing system thus far limited in scope but which may become a more important influence in the future.

The coordination of long-term foreign trade plans has entailed extensive discussions on pricing policies to be followed in intrabloc trade. Prices in the bloc are arbitrar-

ily established; they are often based on Western market prices, without relation to production costs. Now that CEMA is attempting to rationalize and improve the industrial structure of the bloc through increased specialization, serious attention is being given to the problem of developing comparable cost data and devising a system of common prices.

Underdeveloped Countries

Cooperation between the USSR and its European satellites has increased significantly in both the policy and operational phases of the bloc's economic offensive in the underdeveloped countries. The Foreign Trade

EASTERN EUROPE'S TRADE WITHIN THE SINO-SOVIET BLOC

(PERCENT OF FOREIGN TRADE)

	1948	1958	1965 (ESTIMATED)
ALBANIA	NA	95	95
BULGARIA	77	82	85
CZECHOSLOVAKIA	32	69	70
EAST GERMANY	45	73	75
HUNGARY	46	68	65
POLAND	41	56	54
RUMANIA	68	75	75
USSR	NA	73	66

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Commission prepares analyses of exploitable opportunities based on reports forwarded by bloc trade organizations concerning inquiries received and offers made for factory equipment and commodities. As a result, the full bargaining power of the bloc is frequently brought to bear on the individual, competing, Western businessman in the underdeveloped countries.

Cooperation within the bloc has developed significantly with regard to engineering and industrial projects in the underdeveloped countries. In the UAR, for example, the USSR has subcontracted segments of Soviet projects to individual satellites or has had several

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collaborators in complex projects. Moscow exercises overall control by encouraging the satellites to initiate contracts and execute projects of interest to them. Long-term payments by the underdeveloped countries apparently are made to the USSR, which settles with the satellites in shorter periods of time. This system enables Moscow to increase the impact of bloc economic activity while strengthening economies and promoting some degree of specialization.

Coordinated Projects Under Way

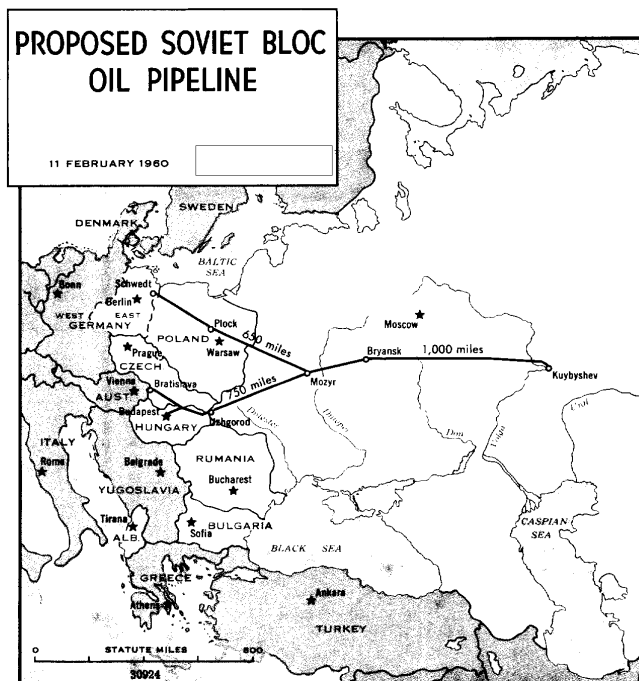
The most colorful examples of CEMA-sponsored efforts at economic collaboration are bilateral and multilateral development projects. The most highly publicized of these is the joint pipeline project which will connect the large Ural-Volga oilfield with re-

fineries in East Germany, Poland, Hungary, and Czechoslovakia. The whole system may be in operation by 1963-64 and will reduce transportation costs and enable increased Soviet crude oil deliveries to the satellites.

Another highly publicized multilateral satellite project under the aegis of CEMA is the construction in Rumania of Europe's largest cellulose plant. The first phase of this project, which eventually will produce 700,000 tons of cellulose annually, is to be completed this year. Rumania has a "half share" in the project, and Czechoslovakia, East Germany, and Poland are participating by supplying processing equipment and technical aid.

The Electric Power Commission of CEMA is supervising unification of bloc power systems, thus assuring a more rational exploitation of power resources and an increased exchange of electric power.

Czechoslovakia is to supply power equipment to Rumania on credit, to be paid for by future deliveries of Rumanian power. Czechoslovakia also is collaborating with Hungary on the construction of a Danube hydroelectric project. East Germany, Poland, and Czechoslovakia are participating jointly in a large thermal-power plant to exploit the enormous reserve of Polish brown coal.

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Basic Problems

The CEMA commissions have a key role in efforts to promote economic coordination. They and the national planning agencies are faced initially with the problem of comparing such factors as natural resources, production capacities, labor productivity, and costs of production to decide which countries are best suited for particular types of production. Differences in domestic and foreign trade prices and in goods classification have kept such comparisons to a minimum.

A leading Czech economist engaged in CEMA activities states that the difference in pricing systems presents "great difficulties." While this problem is as yet unsolved, much attention is focused on the elimination of high-cost industries that arose from the earlier policy of relative national self-sufficiency with its emphasis on generally small output of a wide assortment of products. There is deep reluctance in Eastern Europe to abandon output in these fields, where a sizable stake has been developed. Satellite officials are unwilling to become dependent on suppliers in another country for common industrial parts despite the clear economies to be gained from specialization and mass production.

Another problem which complicates CEMA objectives is the satellites' fear that specialization will impose rigidity in their industrial structure. The less industrialized countries are particularly concerned that the integration program might hold them to the role of mere suppliers of foodstuffs and industrial raw materials.

Much of the progress claimed by CEMA--except in trade, where a major reorientation toward the USSR has occurred--is derived from the natural growth of the satellite economies. For example, East Germany, now specializing in precision instruments, has a long history of superiority in this field. To achieve further economic rationalization of the Soviet bloc, recommendations for industrial expansion include special attention to recently developed industrial pursuits such as plastics, synthetic fibers, and chemicals, where no satellite country yet has a vested interest.

To further a desire for closer collaboration, CEMA also is emphasizing the standardization of products and technological exchanges within the satellites as a prelude to future strict specialization of production. CEMA is able to point to satisfactory progress in inducing the satellites to accept technical measures designed to improve quantity of output.

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